

## Message Text

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15/12

ORIGIN PM-03

INFO OCT-01 EA-06 ISO-00 TRSE-00 MC-02 ACDA-05 CIAE-00

INR-07 NSAE-00 L-02 SS-15 NSC-05 IGA-01 AID-05 /052 R

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DOD/ISA:MR. CONNORS

TREASURY:MR. CROSSWHITE (INFO)

----- 012393

R 122154Z MAY 75

FM SECSTATE WASHDC

TO AMEMBASSY MANILA

INFO CJUSMAG MANILA

CINCPAC

SECDEF

C O N F I D E N T I A L STATE 110321

C O R R E C T E D C O P Y (LINE 3, PARA 5 OMITTED)

E.O. 11652:GDS

TAGS: MASS, RP

SUBJECT: M-16 RIFLE PLANT - FMS CREDITS IN FY 75

REFS: A. SECDEF 171616Z APR 75

B. AMEMB MANILA 5754

1. IN RECENT LEGISLATION, CONGRESS AUTHORIZED THE  
FEDERAL FINANCING BANK (FFB), AN INSTRUMENTALITY OF  
TREASURY DEPARTMENT, TO PROVIDE USG-GUARANTEED LOANS UNDER  
FMS CREDIT PROGRAM. HERETOFORE, USG-GUARANTEED FMS CREDIT  
LOANS WERE OBTAINED DIRECTLY FROM COMMERCIAL LENDING  
INSTITUTIONS BY THE RECIPIENT COUNTRY THROUGH TREASURY'S  
AUCTION BID PROCEDURE. ADVANTAGES OF FFB ARE THAT IT  
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PROVIDES A GOVERNMENT-TO-GOVERNMENT NEGOTIATING FRAMEWORK

AND AN INTEREST RATE ON FMS CREDITS THAT IS WELL BELOW RATES AVAILABLE IN COMMERCIAL MARKET OR THAT WHICH WOULD BE AVAILABLE THROUGH TREASURY AUCTION BID PROCEDURES.

2. FYI. INTEREST RATES CHARGED ON USG-GUARANTEED FEDERAL FINANCING BANK (FFB) LOANS TO DATE HAVE CLOSELY PARALLELED THOSE RATES PROVIDED BY DIRECT FMS CREDIT AGREEMENTS. IN AUTHORIZING USE OF FFB AS A SOURCE OF FMS CREDITS CONGRESS SEVERELY RESTRICTED THE AMOUNT OF FUNDS AVAILABLE FOR USG DIRECT FMS CREDITS. THEREFORE, WITH THE EXCEPTION OF ISRAEL, (FOR WHICH CONGRESS HAS REQUIRED PROVISION OF DIRECT CREDIT IN FY 75) AND LARGE SCALE PROGRAMS FOR WHICH USG HAD ENTERED INTO AGREEMENTS ON CONCESSIONAL INTEREST RATE PRIOR TO ENACTMENT OF FFB AUTHORIZATION, NO REPEAT NO FY 75 DIRECT CREDITS ARE CONTEMPLATED, OTHER THAN SMALL AMOUNTS TO ONLY THE MOST UNDERDEVELOPED NATIONS. NO COUNTRY IN THE EAST ASIAN REGION HAS BEEN EXTENDED OR IS PROGRAMMED TO RECEIVE ANY FMS DIRECT CREDIT IN FY 75. END FYI.

3. THE MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN THE USG AND GOP RELATING TO ESTABLISHMENT OF AN M-16 RIFLE PROGRAM IN THE PHILIPPINES STATES THAT "THE USG WILL... EXTEND EITHER (DIRECT) FMS CREDITS OR FMS GUARANTEES FOR CREDITS OBTAINED BY THE GOP FROM U.S. PRIVATE LENDING INSTITUTIONS..." ANNEX C OF THE SAME MOU STATES THAT THE FY 75 FMS CREDIT REQUIREMENT FOR THE GOP'S M-16 RIFLE PLANT IS \$7.0 MILLION.

4. TO SUMMARIZE, (A) WE ARE AWARE OF NO COMMITMENT TO PROVIDE GOP DIRECT VERSUS GUARANTEED CREDIT AS THE SECOND AND FINAL USG INCREMENT OF FUNDING FOR THE GOP'S M-16 RIFLE PLANT, (B) THE USG WILL PROVIDE, AS PREVIOUSLY AGREED, \$7.0 MILLION IN FMS CREDIT DURING FY 1975 TO COMPLETE FINANCING OF THE M-16 PROJECT, AND (C) THE \$7.0 MILLION WILL BE PROVIDED AT AN INTEREST RATE WHICH IN ALL LIKELIHOOD WILL NOT BE SIGNIFICANTLY DIFFERENT FROM THAT OBTAINABLE THROUGH FMS DIRECT CREDITS.

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5. WE HOPE THAT THE ABOVE INFORMATION WILL BE USEFUL IN EXPLAINING THE PROVISION OF GUARANTEED RATHER THAN DIRECT CREDIT TO THE GOP IN FY 75. FYI: INTEREST RATES ON ADVANCES MADE AGAINST FFB LOANS SO FAR HAVE BEEN LESS THAN SIX TENTHS OF ONE PERCENT ABOVE INTEREST RATE WHICH WOULD HAVE BEEN ESTABLISHED ON DIRECT FMS CREDIT AGREEMENTS SIGNED IN THE SAME MONTH THE ADVANCES WERE MADE. END FYI. INGERSOLL

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ARMS, CREDIT, GUNS (ORDNANCE), INDUSTRIAL PLANTS, MILITARY CREDIT, CREDIT AGREEMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 12 MAY 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** RowellE0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975STATE110321  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** PM/SAS:RMARRYOTT  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750170-0457, D750167-0402  
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**Handling Restrictions:** n/a  
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**Office:** ORIGIN PM  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 SECDEF 171616Z, 75 APR 75  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** RowellE0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 23 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <23 JUL 2003 by BoyleJA>; APPROVED <19 NOV 2003 by RowellE0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** M-16 RIFLE PLANT - FMS CREDITS IN FY 75  
**TAGS:** MASS, RP, US  
**To:** MANILA  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006